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C O N F I D E N T I A L SECTION 01 OF 02 BEIJING 003034

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SUBJECT: IRAN: CHINA CAUTIONS AGAINST FURTHER SANCTIONS

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Classified By: Political Minister Counselor Aubrey Carlson for reasons 1.4 (B/D).

**¶1.** (C) SUMMARY: A recent Associated Press report that P5-plus-1 countries agreed to new sanctions on Iran is a "misinterpretation" of the results of the August 4 P5-plus-1 Political Directors conference call, Chinese MFA Arms Control and Disarmament Department Nuclear Division Deputy Director Shen Jian told PolOff August 6. Shen cautioned against "spoiling the atmosphere" by threatening further sanctions and said Iran is willing to continue negotiations if its concerns regarding the terminology of a freeze in enrichment and the extent of the sanctions to be "frozen" are addressed.

Although Shen stressed that China will try to persuade Iran to provide a clear, prompt response to the P5-plus-1 incentives package and show more flexibility in negotiations, he encouraged the United States to engage in direct bilateral negotiations with Iran. In a separate conversation August 4, a Chinese academic expert on Iran told PolOff that he believes Iran is gradually preparing to make a deal with the United States. END SUMMARY.

#### China Cautions against Further Sanctions

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**¶2.** (C) MFA Nuclear Division official Shen told PolOff that the August 4 Associated Press report that the P5-plus-one nations had agreed to seek new sanctions against Iran is a "misinterpretation" of the results of the August 4 P5-plus-1 Political Directors conference call. Shen said Assistant Foreign Minister Liu Jieyi emphasized in the call that "now is not the appropriate time" to mention sanctions and that doing so will only "upset the atmosphere" for negotiations. Threatening further sanctions will embolden hard-liners in Iran and make it difficult for Iranian moderates to advance their cause, Shen added.

#### Sanctions' Affect on PRC Companies

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**¶3.** (C) Shen said an MFA colleague who recently worked as a political officer at the Chinese Embassy in Tehran reported that, except for higher gasoline prices, the effect on daily life of the UN's Iran sanctions has been minimal. However, Shen said, sanctions have seriously affected Chinese companies, and these companies frequently complain to the MFA. He said Foreign Minister Yang aQthe MFA are under pressure from these Chinese companies eager to do business in Iran. In a conversation with MFA-affiliated China Institute of International Studies (CIIS) Center for Middle East Studies Director Li Guofu August 4, Li argued similarly that sanctions on Iran have "definitely affected" Chinese companies and stated that Chinese oil companies and other

economic actors are pressuring the Chinese Government to oppose further sanctions.

Push for U.S.-Iran Bilateral Talks

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¶ 14. (C) MFA's Shen said that Iran believes the results of the Geneva talks were positive because of U.S. participation, and that Iran is willing to engage in direct bilateral talks with the United States. Shen encouraged the United States to consider bilateral talks with Iran, arguing that U.S.-DPRK bilateral negotiations during the Six-Party Talks have yielded positive results. The same tactic could work with Iran, Shen said.

Iran Ready to Negotiate but Has Issues

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¶ 15. (C) Based on conversations with Iranian officials, Shen said, China believes that Iran is ready for continued dialogue and negotiations but has certain "concerns" that Iran would like addressed. Iran's first concern is "suspension" of uranium enrichment. Shen said he believes Iran is willing to temporarily freeze uranium enrichment, but Tehran is concerned about any requirement that Iran "suspend" its uranium enrichment program. He suggested that the P5-plus-1 members could allow Iran to save face by thinking of a creative way to describe "suspension." CIIS scholar Li expressed the same view, arguing that Iran would be willing to temporarily freeze its enrichment activities but will not give up its right to enrichment. Iran's second concern is the extent of sanctions to be frozen if Iran freezes its uranium enrichment program. Shen said Iran hopes the freeze-for-freeze plan would not only include UN sanctions

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but also U.S. and EU sanctions on Iran.

¶ 16. (C) Shen said China is trying to persuade Iran to continue negotiations, show more flexibility, freeze uranium enrichment and stop installing and testing new centrifuges. Although some officials in Iran would like to delay negotiations until there is a new U.S. president in office, China is pushing Iran to stop delaying and to provide a clear and prompt response to the P5-plus-1 incentives package, Shen said.

¶ 17. (C) CIIS' Li, who met with Iranian officials during his last visit to Tehran in March, believes Iran is gradually preparing to make a deal with the United States. However, he said, the Iranians still believe they are in a strong position to negotiate because of the high price of oil and the need for Iranian cooperation in Iraq. In his view, any sanctions on Iranian oil companies would drive up the price of oil and have a serious economic impact on P5-plus-1 countries. He described China's role in the P5-plus-1 process as "working to persuade Iran and the United States to resolve their differences."

RANDT